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Ask an Advisor: Advising couples with ESG investing when they disagree
By Rob Burgess
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Welcome back to "Ask an Advisor," the advice column where real financial professionals answer questions from real people. The topic can be anything in the world of finance, from retirement to taxes to wealth management — or even advice on advising.

This week, our question for advisors is centered around what is known as environmental, social and governance (ESG) investing.

What used to be known as socially responsible investing (SRI) has been rebranded in recent years as ESG investing. This has also opened the door to values-based investing (VBI), in which client's deeply held spiritual beliefs are reflected in their portfolios.

In 2018, BlackRock CEO Larry Fink highlighted the importance of socially conscious investing in his annual letter to other CEOs.

"Society is demanding that companies, both public and private, serve a social purpose," Fink wrote. "To prosper over time, every company must not only deliver financial performance but also show how it makes a positive contribution to society."

ESG investments became a political hot topic, with many investors pulling money out after right-wing politicians denounced the funds.

Prominent Republican politicians began railing against ESG, decrying it as "woke capitalism" that prioritized fuzzy ideals over profits.Former President Donald Trump called it "radical-left garbage." In 2023, Florida Governor Ron DeSantis signed a law banning state officials from investing public funds based on ESG criteria.

Still, many ESG investments have remained highly profitable. Over the past decade, the top 20 sustainable funds have garnered an average yearly return of 13.57%, according to Morningstar Direct. In the past 12 months, their average gain was 18.29%.

But, what happens if the client couple you're working with can't even agree with each other about what ESG means to them and their portfolios?

Dear advisors,

What challenges arise when clients are looking to exclude companies they don't

agree with from their portfolio?

How do you address issues with clients who have differing values and beliefs, and how does that change when a couple doesn't align on those same values?

What strategies do you recommend for helping guide clients through investing both for financial goals and personal ones?

Kenneth Silva-Ballard
Investment Advisor
First Affirmative Financial Network
Colorado Springs, Colorado

In response, several advisors answered the call with their strategies for tackling this potentially sticky situation. Their advice included suggestions like developing relationships with both members of the couple to figure out what's most important to them; helping clients define what their personal goals are before investing; looking for investments that both individuals agree should be in the portfolio or excluded; allowing clients to articulate what their values, goals, biases and fears are at the start of the relationship with an advisor; seeking a level of understanding with clients about the trade-offs of ESG investing before implementing a strategy; facilitating open discussions between partners during the strategy development stage; encouraging clients to try to separate investment decisions from social causes; and asking if they are opposed to investing in any certain industries or companies at the start of a relationship.

Here are the rest of the responses we received:

You don’t go to a buffet and take some of everything
Jason Britton, founder and chief investment officer of Reflection Asset Management in Mount Pleasant, South Carolina

The challenges that arise when clients are looking to exclude companies from their portfolio for values-based reasons typically fall into three categories:

1. Data: Availability and quality. How do you tell if a company would violate a client's values?

2. Scoreability/Scale: Can you quickly determine if a client's existing holdings are aligned with their values or not? Without the right tools, this can be a Herculean undertaking.

3. Product/Resource/Solution: If you can uncover the client's values, and you can determine their holdings are not aligned, what do you do about it or replace it with?

When values systems inside households or broader family groups are not in sync, you can run into some sticky situations. I've seen the scenario you describe

between spouses, but I have also seen it between generations in trusts and across constituencies in single-family offices and family-limited partnerships. In my opinion, this can be accommodated thoughtfully, if we repackage the notion of values in the same way we think about risk tolerance or time horizon.

In those instances, we would never expect either party forced into an allocation that didn't suit them from a financial perspective. (Too much risk in an older client's account or not enough risk exposure in a younger one.) If you think about the assets in this way, and at the account level, the differing values can be addressed fairly easily. Again, at least with the right tools. Full disclosure, it gets a little trickier on commingled assets with different beneficiaries if all you're trying to do is exclusionary values-based screening rather than inclusionary.

I make a clear distinction between all of the adages and rules of thumb in our industry and reality. In the world in which I operate, the two cannot be divorced from each other, no more than the simple thought experiment of, "Would I work with an advisor who I thought was smart, but that I didn't think was trustworthy?" Of course not, so why would I make an investment that contributed a return to my portfolio but was in a company or product that hurt people, the planet or my values system? The notion that you must own everything in the market, the reason most advisors don't do ESG or active management, simply because it exists is nonsense in my opinion.

You don't go to a buffet and take some of everything. A buffet is designed to offer many different people with different interests and preferences a wide selection. An advisor's job in this metaphor is to help you pick out the things from the buffet that suit your needs and preferences, and they can only do that by getting to know you and developing a relationship.

Couples should work to be on the same page
Robert A. Duncan, owner of Global Impact Wealth Management in Riverside, California

Whenever investors desire to screen their portfolios, in this case, negative screening, there are a few big issues they need to consider. In no particular order: The mechanism to perform the screening, what criteria will they use and how strict will they be, costs associated with screening, understanding the potential performance effects, or tracking error, evaluating whether this screening has helped or hindered their portfolio performance and the attainment of their goals.

I think couples need to be able to respect each other's wishes and beliefs and if they cannot compromise or reach an agreement, they should not venture into socially responsible investing for at least assets held jointly. Certainly, each client can invest their respective funds, IRAs or individual accounts, as they see fit. But, in my opinion, couples should work to be on the same page regarding goals, objectives and the means of trying to achieve those objectives.

I think that all financial goals should be set with the objective of trying to achieve one's personal, or family, goals. The reason we do financial planning and investment management to begin with is to help individuals, families and institutions work toward achieving the goals they have for their lives. Very seldom are they purely financial. Sure, there may be a number associated with it, but that target represents a real personal goal, like a beach house, months of travel annually, family vacation and getting kids through college debt free. Bottom line, for me, articulating and defining the personal goal always comes first, then we back into what the finances would need to look like to give them the highest probability of success.

Look for common ground
Mitchell Kraus, an LPL registered principal at Capital Intelligence Associates in Santa Monica, California

As a Chartered Sustainable Responsible Impact Counselor (CSRIC) designee, I work with a lot of clients who want to match their values to their portfolios.

ESG investing can provide great satisfaction to clients by aligning their money with their values. However, it can cause conflicts when couples disagree on those values and how to invest their money. We will take a few steps in these situations.

Look for common ground. Are there investments that both individuals agree should be in the portfolio or excluded? By finding the common ground, the portfolio might create a spirit of working together for common solutions.

Divided investment accounts. We often have clients for whom we invest their money separately. One spouse might have a very strict ESG portfolio while we create a more inclusive strategy for the other. This is often simplest when both clients have separate retirement accounts or other accounts in one name only.

Emphasize the role of compromise. For many clients in this situation, we'll use a blend of ESG-focused and non-ESG funds. This mixed approach to a single investment account may not be the ideal situation for either individual, but it can be a viable solution that works for both.

Understanding will drive decisions about goals and investing
Amy Buck, owner of Planpath Financial in Marquette, Michigan

Paramount to any relationship between a financial planner and client or clients is understanding your client's values, goals, biases and fears as they pertain to money and investing. When working with a couple, this conversation is not only important between the planner and clients, but also between the clients themselves and is often the first time they've understood one another in this way. This understanding will drive decisions about goals and investing.

When a client expresses wanting to avoid a particular company for ethical,

religious or other reasons, knowing what order of importance of portfolio performance vs. ethical considerations will guide these conversations and decisions. Even when choosing ESG funds, if you dig deep enough, companies may have made it through the ESG process but still have some skeletons in their closets. ESG funds tend to be more expensive, which drives down expected performance.

However, the clients' goals dictate which portfolio makes sense for them. I have many clients who, at this point in the ESG story, have chosen to err on the side of performance in their portfolios and make a difference in the world in their local communities where they feel they can make a bigger difference. Others may be steadfast in choosing their ethos over performance, which makes the portfolio created for their needs perfect for them.

Ultimately, the investment strategy that clients feel good about and will stick with is what will win over time.

A couple must agree on a direction
Noah Damsky, principal at Marina Wealth Advisors in Los Angeles

I don't mind excluding a company from the portfolio to the extent it's possible. For example, if someone doesn't want to invest in oil and gas, I get it. I don't agree with it, but I understand that might be best for them.

However, excluding certain companies or sectors of the market can be detrimental to the overall portfolio. Imagine if someone didn't want to invest in large tech companies over the last several years. That could have significantly harmed their portfolio growth and financial future.

To exclude certain companies, it might require more complex implementation such as direct indexing. Sometimes it's feasible, sometimes it's not. There are trade-offs, from complexity to cost, that might be less favorable than the original problem it was looking to solve.

Understanding these trade-offs before implementing is critical.

Also, a couple must agree on a direction. They have to be unified and be rowing the boat in the same direction. If they're rowing in opposite directions, they're going to fail. If they're not in agreement, they might benefit from and need deeper, nonfinancial help, such as therapy.

Facilitate open discussions between partners
Jon McCardle, president of Summit Financial Group of Indiana in Lafayette, Indiana

When clients wish to exclude certain companies from their investment portfolios due to ethical or personal beliefs, financial advisors face unique challenges. This task becomes particularly complex when clients are invested in packaged

products like mutual funds or annuities. These investment vehicles often lack the transparency and flexibility needed to exclude specific companies, making it nearly impossible to align the portfolio strictly with the client's values.

Conversely, if clients are investing in individual equities, excluding specific companies can be relatively straightforward. However, advisors should caution clients that this approach might impact the overall performance of their investments. It is essential to discuss and reassess these decisions regularly to ensure they align with the client's financial goals.

When advising clients who are a couple, differing values and beliefs can complicate the investment strategy, especially if both partners do not share the same financial and ethical priorities.

For individual portfolios, handling these differences is relatively simple. Each partner's investment portfolio can be tailored to reflect their personal values, risk tolerance and financial goals. However, when managing jointly owned investment accounts, the process requires more nuanced communication and strategy.

In such cases, we as advisors must facilitate open discussions between partners during the strategy development stage. This involves understanding and addressing each partner's objections, values and beliefs. Sometimes, a joint investment account can be structured to serve different purposes than originally intended, satisfying both partners' concerns.

When a compromise cannot be reached, one effective strategy is to use investment options that offer greater transparency. This allows the advisor to design a portfolio that either avoids or includes specific investments according to the couple's values and beliefs.

Guiding clients through the process of investing to meet both their financial and personal goals requires a thoughtful and strategic approach. As an advisor, it's important to strike a balance between personalized service and maintaining a scalable business model.

A valuable lesson in financial advising is that creating unique strategies for every client, while initially satisfying, can lead to burnout as your client base grows. For long-term sustainability, it's essential to develop specific models and strategies that can be adapted to meet the diverse needs of most clients.

At our firm, we utilize a range of tools including no load funds, ETFs, individual equities and noncommissionable annuities. These tools enable us to design and implement strategies that are flexible enough to accommodate a wide array of client needs while maintaining efficiency in our practice.

By using these standardized yet adaptable strategies, we can effectively guide clients through the complexities of investing, ensuring that their portfolios

reflect both their financial objectives and personal values. This approach not only leads to satisfied clients but also creates a sustainable and scalable business model for advisors.

Separate investment decisions from social causes
Scott Van Den Berg, president of Century Management in Austin, Texas

Excluding specific companies from a portfolio based on client values can be complex, especially when clients' beliefs diverge or couples have differing values. The main challenge is balancing financial performance with personal values while addressing both partners' preferences.

Discussing the distinction between investment decisions and personal values often helps clients make more informed choices. For couples with conflicting values, open communication and compromise are crucial.

Managing portfolios with exclusions can be more straightforward with individual stocks and bonds compared to mutual funds or broad indices like the S&P 500, which include diverse sectors. For example, if a client says no fossil fuel investments, that would exclude owning the S&P 500 as Exxon is a sizable holding within that index. Individual securities offer greater control and flexibility, allowing for precise customization to exclude certain companies or sectors, aligning investments with personal or ethical preferences.

We encourage clients to try to separate investment decisions from social causes. By focusing on business fundamentals and decisions to maximize returns, clients can then use the profits to support any social cause they choose. Mixing investment decisions with social causes can sometimes hinder financial performance. Our clients usually prefer a portfolio of individual securities over funds or ETFs, as it provides better control over exclusions while meeting financial goals.

Listen to the client
John Blair, president of Blair Capital Management in Norwalk, Connecticut

For every client, I offer the courtesy of asking if they are opposed to investing in any certain industries or companies at the start of a relationship. I think this touches on the uniqueness of each client that I promote. If a client does not wish to have any investments in certain industries such as tobacco, arms manufacturers, companies with specific ties to certain foreign countries, etc., I simply do not invest in any of those companies or industries for their accounts. There are perhaps 4,200 public U.S. companies, and if I cannot find suitable investments given certain exclusions, I should not be doing this.

I think this approach reflects respect for each client and a willingness to listen to them, as opposed to them listening to me.